CALIFORNIA ASSOCIATION of PUBLIC HOSPITALS AND HEALTH SYSTEMS

April 21, 2020

The Honorable Holly Mitchell, Chair
Senate Budget and Fiscal Review Committee
State Capitol, Room 5019
Sacramento, CA 95814

The Honorable Phil Ting, Chair
Assembly Committee on Budget
State Capitol, Room 6026
Sacramento, CA 95814

Subject: State General Fund Support for Public Health Care Systems

Dear Chair Mitchell and Chair Ting:

On behalf California's 21 public health care systems and the millions of patients they serve, we applaud your leadership and swift action that kick-started California's COVID-19 response. As our collective response efforts persist, public health care systems have become increasingly concerned that they cannot financially sustain their ability to continue providing hospital care to our state's most vulnerable patients, including nearly 40% of the state's uninsured and 35% of Medi-Cal patients in their communities – numbers that will likely increase as this crisis persists and as our state recovers. Public health care systems are essential providers, and we must make sure their doors stay open. Even as we pursue all possible sources of support, we call on the Legislature to prioritize a direct investment of State General Fund for public health care systems in the 2020 State Budget. We do not have a specific dollar request at this time, given all the unresolved federal funding issues, but we will work to provide such a number later in the process.

Background

As you know, California's public health care systems (PHS) are the core of the state's health care safety net, delivering high-quality care to more than 2.85 million patients annually, regardless of ability to pay or insurance status. Most patients seen in public health care systems are either Medi-Cal beneficiaries or remain uninsured. PHS also operate over half of the state's top-level trauma and burn centers, and train half of all physicians in the state.

Public Health Care Systems' COVID-19 Response Efforts

Since the start of the pandemic, PHS, which include county-owned and -affiliated facilities, as well as the UC medical centers, have, and continue to play an integral role in the public health response effort. Working alongside their local public health departments and emergency personnel, and in many cases directly with the California Department of Public Health and the Centers for Disease Control and Prevention, PHS have continued to coordinate a swift, thorough, and effective response to the pandemic. Some key response areas are highlighted below:

Surge Capacity: PHS have dramatically increased their surge capacity, overhauling their operations to prepare for spikes in demand. They have found ways to free-up space within their facilities by converting non-clinical spaces into care settings, building mobile field tents, and expanding operations to additional vacant or unused buildings, including hotels and convention centers, among other efforts. Such efforts have corresponded to significant reductions, and in some cases, entire eliminations, of elective procedures.

Testing: PHS are also working hard to rapidly accelerate and fill in California's testing capacity gaps. Many systems have worked extraordinarily quickly to develop new technologies and bring in-house testing online, with turnaround times of less than 24 hours. Public health care systems have also been some of the first sites across the state and in their communities to offer drive-through testing, and they remain committed to these efforts in the coming months to surveille and eventually suppress the spread.

Homelessness: As core safety net providers and lead entities of Whole Person Care (WPC) pilots, public health care systems are working closely with their county partners, community-based organizations, and social service agencies, among others, to prioritize care for the homeless population during the COVID-19 crisis. Many WPC pilots are quickly reallocating resources to support persons who are living without a home, or who are unstably housed, and who are at an increased risk of contracting the virus. Pilots are partnering with local hotels to secure space for patients who have tested positive for COVID-19, who are awaiting test results, or who are especially vulnerable due to their age, or comorbid conditions, and need to be relocated from shelters and encampments. Public health care systems are eager to continue these efforts in coordination with Project Room Key.

COVID-19 Financial Strains

With dramatic costs related to the COVID-19 response, and a significant loss of revenue, PHS have grave concerns about their financial ability to continue to carry out their mission and maintain their levels of care to Medi-Cal and uninsured patients, as discussed above. ***Collectively, PHS estimate they will incur roughly $3.5 billion dollars in new costs and lost revenue between March and August 2020, due to the COVID-19 response.*** In large part, these costs stem from significant investments for the efforts described above, including:

- Expanding surge capacity, including procuring new equipment, supplies, infrastructure, and bringing on new frontline health care workers;
- Purchasing new equipment and services for increasing the provision of telehealth; and
- Preserving access, by cancelling non-essential procedures and surgeries, in preparation for the surge expected within the coming weeks.

Insufficient Federal COVID-19 Funding

Public health care systems are prioritizing efforts to draw down and secure all available COVID-19 federal funding sources, including Federal Emergency Management Agency, allocations for health care providers under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, and the pursuit of funding through an emergency 1115 waiver. However, given the magnitude of

our experience, even when we total up these possible funding sources, they fall short for enabling us to maintain essential services and fulfill our safety net role. Significant gaps would remain. For example, the Centers for Medicare and Medicaid Services (CMS) recently disbursed the first tranche of funding ($30 billion) under the $100 billion CARES Act appropriation for health care providers. This disbursement was apportioned based on Medicare fee-for-service volume. For safety-net providers that primarily serve Medi-Cal and uninsured patients, this methodology was extremely problematic and inadequate. Though CMS has made some assurances that the second tranche of this funding would be more targeted towards safety-net providers, the group of eligible providers for this funding remains extremely large, including clinics, nursing homes, children's hospitals, and others. A diluted level of funding almost certainly will not meet PHS emergency needs.

Financial Impact on Counties

As you know, a number of public health care systems receive support from their county under typical circumstances. However, the pandemic has substantially reduced county coffers as well, as sales and other taxes dry up. These funds have historically supported key functions under 1991 and 2011 realignment, including public health and health care services. Further, the delay in collection of some taxes will undermine counties' cash flow abilities, which reduce counties' ability to support their local hospital system. Also, as public health care systems provide the non-federal share for a significant portion of the care they provide to their Medi-Cal and uninsured patients, their efforts may be further crippled as fewer local dollars are available to serve as a match for federal funds. As county funding erodes, PHS could face a double threat of declining local support and a reduced ability to finance federal support.

Preexisting Financial Challenges

Even prior to the COVID-19 pandemic, public health care systems were facing extraordinary financial threats and uncertainty. As described above, public health care systems self-finance a significant portion of the care they provide to their Medi-Cal patients – an increasingly challenging and unsustainable model for public health care systems to maintain, as it creates an inherent deficit in which their costs of providing care can never be fully covered.

Since 2005, California has utilized 1115 Medicaid waivers to support public health care systems financing. Over the past 15 years, waivers have become a funding source upon which PHS have become extremely reliant. Each 5-year waiver has leveraged PHS' ability to finance the non-federal share, simultaneously helping to sustain them and perpetuating the structural deficit issue described above. Waivers have also challenged and enabled PHS to achieve significant delivery system transformation through performance-based programs aimed at improving patient outcomes and targeted care coordination efforts for their most vulnerable patients. California's current 1115 Medicaid Waiver, *Medi-Cal 2020*, totals $2.1B annually across DPH programs, and expires in December 2020. CMS's refusal to allow California to continue the existing structure of 1115 waivers resulted in the development of specific CalAIM proposals and other opportunities for alternative supplemental payments through managed care-based supplemental payments.

As you know, our work with the State to ensure that CalAIM included a viable transition path for PHS has been halted. DHCS is now seeking an extension of California's existing 1115 Medicaid Waiver through 2021. However, it is unclear how CMS will respond to this request. If PHS lose waiver funding without alternatives in place, they will be forced to significantly curtail services, and some could shutter entirely.

Public Health Care Systems' Ongoing Role

Such a possibility of closed public health care systems could hinder the realization of a vision for a re-opened economy in California. As residents begin engaging with one another more directly and frequently, we are likely to witness future spikes of COVID-19 cases. Knowing this, Governor Newsom made clear that a re-opened economy must be predicated on hospitals' ongoing capacity to surge when needed. As other hospitals return to a majority of elective procedures and seek to recoup losses, we anticipate that the burden of such a surge capacity commitment will fall on public health care systems. Yet, they simply may not have the resources to do so, while keeping their doors open for everyone in their community, regardless of circumstance.

Another critical role for PHS that must be sustained is our efforts to address health disparities, a long-time scourge of our health care system and one that has risen to greater public consciousness as a result of disproportionate COVID-19 mortality in black and Latino communities. PHS have long served a diverse, low-income patient population who are at greater risk for health disparities and poor health outcomes. Because of this patient population, PHS have developed tailored methods for reducing disparities – another example of the kind of effort that could have to be dramatically scaled back due to this financial crisis.

Need for State General Fund Support

For all of the reasons discussed above, we urge your support in a General Fund investment for public health care systems in the 2020 State Budget. Now more than ever, it is paramount that their vital infrastructure be preserved, especially as their services are desperately needed across the state. Public health care systems are being stretched financially to their absolute limits. Without intervention from the Legislature, they will not be able to sustain their operations and continued level of service provision in the medium to long-term, possibly forcing some systems to close their doors altogether. The more than 2.85 million patients served annually at public health care systems, many of whom who are low-income, or are particularly vulnerable, cannot afford to see a reduction in the essential services they rely on, and our communities cannot afford to lose indispensable community assets, such as trauma and burn centers, during or after this pandemic. Public health care systems urgently need an infusion of state General Fund support, and we implore you to prioritize this request as you address and deliberate COVID-19 response and recovery needs in the 2020 State Budget.

Thank you for your consideration. We would be pleased to further discuss our position with you and answer any questions you may have. Please contact Kelly Brooks-Lindsey, our Sacramento representative, at 916-272-0011 if you would more information.

Sincerely,

Erica B. Murray
President and CEO
California Association of Public Hospitals and Health Systems

cc: The Honorable Members of the Senate Budget and Fiscal Review Committee
The Honorable Members of the Assembly Committee on Budget
Marjorie Swartz, Policy Consultant, Office of Senate Pro Tem Toni Atkins
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